



ROLE OF MICRO, SMALL & MEDIUM ENTERPRISES (MSMES) IN THE RURAL DEVELOPMENT OF INDIA

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ABSTRACT

Micro, Small and Medium Enterprises have been accepted as the engine of economic growth and for promoting equitable development all over the world, especially in India in view of second highly populated country in the world. Micro and small scale enterprises have existed in rural India since ages in the form of traditional skills. Recently, rural entrepreneurship has emerged as a dynamic concept. There is lot of scope for rural entrepreneurship in SMEs (Small and Medium Enterprises) sector economy which plays a vital role in providing employment and income for the poor and unemployed in rural areas. As the population grows there will be pressure on land and the growth in the agricultural production cannot absorb the ever increasing rural labor force in agricultural employment. This leaves the rural non-farm sector in the form of rural SMEs to absorb those released from agriculture but not absorbed in the urban industries. The scope of rural industries is considered basically a question of properly utilizing the unexploited natural and human resources and tapping vast material existing in the countryside. The features of rural industrialization are low investment of capital, labour intensity and use of simple technology by employing local human and material resources. Thus, a judicious mix of local manpower with the local resource is necessary to bring about a viable development in these areas. In the era of globalization, entrepreneurship development in the rural context is a challenge. According to 2011 Census 68.84% people are living in rural areas of India. People in rural areas suffer with unemployment, poor infrastructure facilities which may be solved with the development of the rural entrepreneurs. "Rural Entrepreneurship be defined as entrepreneurship emerging at village level which can take place in a variety of fields of endeavor such as business, industry, agriculture and acts as a potent factor for economic development". But, these rural entrepreneurs are suffering with various problems like fear of risk, lack of finance, illiteracy, and competition from the urban entrepreneurs. Rural entrepreneurs increase the standard of living and purchasing power of the people by offering employment opportunity to the people in villages. This paper is an attempt to understand the problems and challenges of rural

entrepreneurship in the context of rural development in India and possible suggestions are given to overcome the problems.

Keywords : Rural development, micro, small and medium enterprise MSMEs, rural economy.

INTRODUCTION

The problem of unemployment, poverty and lack of education signals that socio-economic situation of the country has not improved considerably even after 75 years of independence. It also implies that the efforts of government did not rip satisfactory results. In 2012, the Indian government stated that 22% of the Indian population lived below the poverty line. The World Bank report in 2011, based on Purchasing Power Parity (PPP 2011) calculations, estimated that 21.2% of the Indian population, lived below the global poverty line of \$1.90 PPP (World Bank, n.d.). To eradicate poverty and promote inclusive growth, MSME sector could play a crucial part owing to the huge impact it could create on the employability, poverty alleviation, reducing regional disparity, promoting social sector development etc. MSMEs have the ability to improve the economic and socio-economic condition of a large underprivileged population. Alleviating poverty and rural development is about Inclusive growth in rural India. Inclusive growth means economic growth that creates employment opportunities and helps in reducing poverty. Inclusive growth is about ensuring access to health and education, equality of opportunities, empowering people through education and skill development etc (Arthapedia, n.d.). Raising inequality in wealth has widened the gap between rich and poor in the country. Filling this gap between rich and poor is a huge challenge for policymakers. MSME sector is the backbone of our economy and plays a significant role in economic development. It is acknowledged worldwide that MSMEs are important contributors to a nation's economic and social development. In India, The MSME sector contributes to 45% of the total manufacturing output, 40% of the total export, 6% of the GDP, employs over 8 crore people and produces over 8000 products. Not only it supports large industries with their inputs but also it ensures inclusive growth of the nation by supporting the rural economy. Most of the MSMEs are situated in rural areas and employ rural manpower.

REVIEW OF LITERATURE

Thahira K., 2017, Studied the impact of MSMEs in Mallapuram district of Kerala. The research found that after the enactment of the MSMED Act, 2006 many positive changes were seen in the district. The researcher explored in detail the role of MSMEs in rural development. Researcher applauded the technical and managerial support provided by the District Industrial Centre (DIC) and concluded that it has helped to reduce poverty and gender inequality in the district.

Patil & Patil, 2016, Studied the role of entrepreneurship in rural development, the role of government support initiatives for entrepreneurs. They suggest that rural entrepreneurship programmes should be such that they

promote innovation and inspire the youth to choose entrepreneurship as a career. They also opined that incentives and monetary benefits to the farmers would encourage rural entrepreneurs.

Srinivas, 2013, Stated the importance of Micro, Small and Medium Enterprises in inclusive growth of the Indian economy. The researcher discussed the challenges faced by MSMEs and support schemes provided by the government related to various matters. As per the researcher, the support provided by the centre and state governments have not been adequate and the potential of the MSME sector has not been fully utilized. Among the many problems, lack of finance is the biggest challenge for the MSMEs and there is a lot of scope for the growth of MSMEs in the country.

Vandenberg, 2006, Reviewed the Small Enterprise Development Programme (SEED) of International Labour Organization (ILO) in poverty reduction. The author highlighted the difficulties in evaluating the impact of enterprise development on the enterprise itself, poor workers, entrepreneurs and their families. The author also suggested the strategies which could be adopted by SEED to focus on poverty reduction programmes.

OBJECTIVES OF THE STUDY

1. To study the situation of poverty and employment scenario in India.
2. To study the role of MSMEs in poverty alleviation and rural development

RESEARCH METHODOLOGY

The study is descriptive in nature and is based on secondary data. The sources of evidence produced have been taken from journals, Magazines, web-pages, annual reports of Ministry of MSME, Report of the 73rd National Sample Survey, ILO working paper etc. The important facts have been stated through tables and charts.

DEFINITION OF MSMEs

The MSME became operational on October 02, 2006. As per MSME Act-2006, MSMEs are classified into two categories. They are :

1. Manufacturing Enterprises-The enterprises engaged in the manufacture or production of goods (as per Development and Regulation) Act, 1951 or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use.
2. Service Enterprises-The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

In February, 2018, the Union Cabinet chaired by the Prime Minister Shri Narendra Modi has approved changes in the definition of the MSMEs. Now, MSMEs will be defined on the basis of "annual turnover" instead of earlier definition of investment in plant & machinery/equipment. It is expected that the changes made in the

definition of the MSMEs will enhance the ease of doing business and very soon the contribution of manufacturing sector in the Indian GDP will touch to 25 percent. The revised classification of MSMEs is based on turnover has made it easier for both the government and industries to recognize a business as an MSME. The following table reveals the new definition of the MSMEs in India.

TABLE-1

MSME Classification as per the MSMED Act 2006			
Criteria : Investment in Plant and Machinery			
Classification	Micro	Small	Medium
Manufacturing Enterprise	Investment < ₹ 25 lakh	Investment < ₹ 5 crore	Investment < ₹ 10 crore
Service Enterprise	Investment < ₹ 10 lakh	Investment < ₹ 2 crore	Investment < ₹ 5 Crore
MSME Classification as on June 2020			
Criteria : Investment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Service Enterprise	Investment < ₹ 1 crore and Turnover < 5 crore	Investment < ₹ 10 crore and Turnover < 50 crore	Investment < ₹ 20 crore and Turnover < 100 crore

Source: Ministry of MSME, Government of India

The change in definition after 2006 MSMED Act was first initiated in 2015, when the government introduced MSME Development (Amendment) Bill, 2015 in the proposal was made to increase the investment limits for manufacturing and services MSMEs. Further, The MSME Development (Amendment) Bill, 2018 was proposed in 2018 which proposed to use annual turnover as criteria instead of investment for classification of MSMEs and remove the distinction between manufacturing and service enterprises (Vaishnav & Surya, 2020).

MSMEs AND RURAL DEVELOPMENT

Rural India is home to 70% of the total population of the country. The rural population resides mainly in far reach and backward villages. According to the 2011 census nearly 800 million people in rural areas lives in more than 600,000 villages (Elbers & Lanjouw, 2019). Rural development is characterised by improving the quality of life and economic well-being of the people residing in rural areas (Thahira K., 2017) [12]. The rural development generally takes place by the use of traditional knowledge to produce goods by exploiting the

available local resources. The rural economy thrives on the productive utilization of locally available resources only. The MSME sector stands as a strong pillar for the growth of rural sustainable livelihood. The human capital residing in the rural areas are well utilized by the tiny and Cottage industries mainly working on the theme of traditional handicrafts. The major institution that works for rural development under the aegis of the Ministry of MSMEs is Khadi & Village Industries Commission (KVIC).

Khadi & Village Industries Commission (KVIC) was established in 1956 for promoting and developing Khadi and village industries (KVI). The industry is providing huge employment opportunities in rural areas and thereby helping strengthen the rural economy. KVIC has been identified as one of the key organization in the MSME sector which generates admissible non-farm employment opportunities in rural areas at a low per capita investment. KVIC undertakes activities of skill development, transfer of technology, R & D in village industries, marketing support to Village industries etc. (Ministry of MSME, 2018) and helps in generating employment/self-employment opportunities in rural areas as majority of MSMEs are situated in rural areas and they have significant contribution in development of those areas. Through a wide range of activities of Khadi and Village industries, the workers are getting employment opportunities and are earning income for their survival. KVIC works with the wider objective of creating self-reliance amongst the people and building up of a strong rural community spirit, the social objective of providing employment in rural areas in general and in urban areas through DIC particular. Khadi and Village Industries sectors have helped the country in providing employment to a large number of persons. The estimates available from Village industries can be seen in the table below:

TABLE-2

Sl.No.	INDUSTRY	2020-21	2021-32 (Actual upto 31-12-2021)	2021-32 (Estimated upto 31-03-2022)
I	PRODUCTION			
A	Khadi	1668.61	1592.68	2350.45
B	Polyvastra	230.51	217.18	267.66
C	Solarvastra	5.37	0.00	0.00
Total Khadi, Polyvastra & Solarvastra		1904.49	1809.86	2618.11
D	Village Industries	70330.66	60694.43	83315.41
	TOTAL KVI PRODUCTION	72235.15	62504.29	85933.52
II	SALES			
A	Khadi	3085.53	2698.34	4214.70
B	Polyvastra	436.52	331.66	417.30
C	Solarvastra	5.66	0.00	0.00

Total Khadi, Polyvastra & Solarvastra				
D	Village Industries	92213.65	81375.16	108446.21
	TOTAL KVI SALES	95741.36	81375.16	108446.21
III	EMPLOYMENT			
A	Khadi	4.61	4.61	4.74
B	Polyvastra	0.30	0.30	0.30
C	Solarvastra	0.06	0.06	0.06
Total : Khadi, Polyvastra & Solarvastra		4.97	4.97	5.10
D	Village Industries	154.09	159.10	161.47
	TOTAL KVI EMPLOYMENT	159.06	164.07	166.57

Source : MSME Annual Report 2021-22, Govt. of India.

It can be observed from table-2 that the total value of production of KVI has been increased from . 72235.15 in 2020-21 to 85933.52 in 2021-22 which is a substantial increase of almost 19 percent. It indicates that KVI has been operational in a full-fledged manner. The table also shows that sales have been increased nearly 18.50 per cent from 95741.36 crores to 113078.21 crores. The employment generation by KVIs in these two years has been phenomenal by employing around 159.06 lakh people in 2020-21 and 166.57 lakh people in 2021-22. Earlier, as per the MSME annual Report 2021-22, the earning of village industries had been growing substantially every year.

TABLE-3

Employment provided by KVIC (Artisan in Lakh)

S.No.	Year	Employment
1	2014-15	123.19
2	2015-16	126.76
3	2016-17	131.84
4	2017-18	135.71
5	2018-19	142.03
6	2019-20	147.76
7	2020-21	154.09

8	2021-22 (upto 31-12-2021)	159.10
9	2021-22 (Projected upto 31-03-2022)	161.47

Source : MSME Annual Report 2021-22, Govt. of India.

From the above table, it can be observed that KVICs have regularly employed a huge number of people every year. In 2014-15 and 2015-16, the KVICs employed 123.19 lakh and 126.76 lakh people in various KVIC units. These number further increased in the years 2016-17 and 2017-18, 2018.19, 2019.20, 2020-21 when a total of 131.84 lakh and 135.71 lakh people 142.03 lakh people, 147.76 lakh people, 154.09 lakh people provided employment opportunities in these KVIC units. In 2021.22 (Upto 31.03 2022) 161.47 lakh people were expected to get employment opportunities in these KVIC Units. The KVIC keeps taking strategic initiatives to promote Khadi and Village industries to them and make them competitive. Some recent initiatives by the KVIC include Workshed scheme for Khadi Artisans, Strengthening of the infrastructure of khadi institutions, assistance in marketing infrastructure, khadi reform and development program, interest subsidy, honey mission, franchise scheme etc.

In recent decades, Inequalities have widened significantly between rich and poor. With the increase in population, the agriculture sector has failed to accommodate the total rural population. Inclusive growth efforts should be able to reduce inequality, alleviate poverty and benefit the most disadvantaged people in the economy. The MSMEs which have a turnover of more than 5 crores has to fulfil corporate social responsibility obligations. They may adopt schools and hospitals in villages as part of their CSR obligation and they could help locality in building roads and transport facilities. It may not always be easier for Small and Medium Enterprises to adopt schools and hospital but they could bear the cost of educations of children the employed workers and give them free medical care. MSMEs should take steps towards improving the living conditions of their employees and their families. MSMEs could also contribute by providing employment totally to local people and taking supplies from local vendors.

SUGGESTIONS

The government must formulate a detailed policy for rural MSMEs and take necessary steps to nurture the entrepreneurship activities in rural areas. Some of the key points that researchers have noted for the betterment of MSMEs for poverty alleviation and rural development are as follows:

1. Promoting rural tourism with the help of rural MSMEs can be one of the best ways to boost the rural economy. Many natural hill stations and cultural sites are situated in rural areas. They can be developed as a tourist spot with the help of local people which would generate employment and source of income to the local people for many generations to come.

2. Setting up of ancillary units of large enterprises in the rural area could generate more employment in the rural areas. These ancillary units would supply the farm produces and other finished and semi-finished goods to large enterprises. These ancillary units must be made mandatory to employ the village people only.
3. Skill Development Programs and Entrepreneurship Development Programs must be provided in the rural areas so that the rural youths can be imparted skills other than farming activities that their ancestors have been doing since ages. This would encourage them to take initiatives for undertaking entrepreneurial activities. Panchayat Bhawan and Primary schools could be used for these purposes.]
4. Emphasis must be given to establishing more agro-based units in the rural areas as farm products can be easily procured by them without any extra transportation cost. Many entrepreneurs in villages have started their own businesses in rural areas to use the farm produces to transform them into saleable products. These type of entrepreneurs must be provided proper support in the form of technical assistance, marketing support etc.
5. Branches of DICs must be set up at block level which would track the growth of MSMEs in the rural areas. This would help in keeping the records of MSMEs and also help the Ministry to assess the funding requirements of the MSMEs.
6. Lack of infrastructure in rural areas has remained a major problem since independence. The government must ensure that Infrastructural support in the form of uninterrupted water and electricity supply is provided to the MSMEs in rural area along with the road connectivity for transport.

CONCLUSION

MSMEs plays a vital role in the economic development of India, particularly in the rural economy. It helps in generating employment opportunities in the rural areas with low capital, raising the real income of the people, contributing to the development of agriculture by reducing disguised unemployment, reducing poverty, migration, economic disparity, unemployment. Government should go for periodical appraisal of MSMEs development schemes and programmes in order to uplift rural areas. MSMEs finds it difficult to take off is due to lack of capital, risk taking and innovation. They are the way of converting developing country into developed nation. Promotion of MSMEs are extremely important in the context of producing gainful employment and reducing the widening disparities between the rural and urban. MSMEs provide self dependency and it is the only way to solve the problem of unemployment in a populous country like India. MSMEs are boon for reducing regional imbalances and a means to utilize the natural and abundant human resources available in India.

MSMEs can be an effective medium to use local resources for more productive purposes with the coordination of government and local institutional bodies. It is required that MSMEs must be backed and supported in the

mission to reduce poverty and unevenness in the development. The problems faced by MSMEs must be addressed properly and special attention should be given to Micro enterprises. The Government of India has taken a slew of measures and is striving to improve the economic and social conditions of the rural population and non-farm sector. Setting up of Micro-Units Development and Refinance Agency (MUDRA) Bank is one such step in this regard. The government should continuously and comprehensively monitor such schemes. Through government interventions in the form of financial, infrastructural and technological support, MSMEs must be strengthened create more employment which would ultimately lead to rural development and poverty alleviation. More the MSMEs flourish, more it paves the way for poverty alleviation and rural development in the country.

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